

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 EB-08 COM-02 TRSY-02 CIAE-00
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DODE-00 IGA-02 EUR-12 OMB-01 H-01 /080 W
-----311355Z 093245 /44
R 311205Z MAR 77
FM AMEMBASSY THERAN
TO SECSTATE WASHDC 1855
INFO AMEMBASSY CAIRO

C O N F I D E N T I A L SECSTION 1 OF 2 TEHRAN 2798

E.O. 11652: GDS
TAGS: EFIN EAID EG IR
SUBJ: IRANIAN AID TO EGYPT

REF: (A) 76 TEHRAN 11244, (B) 76 TEHRAN A-223, (C) TEHRAN 2424,
(D) STATE 62199, (E) CAIRO 5337

1. SUMMARY: THIS MESSAGE RESPONDS TO REF D AND E CONCERNING
IRANIAN ASSISTANCE TO EGYPT, PARTICULARLY IN LIGHT OF PRIMIN
SALEM'S MID-MARCH VISIT TO IRAN (REF C). REF A
PROVIDED INFORMATION CONCERNING IRAN'S PROJECT ASSISTANCE TO
EGYPT AND REF B AGGREGATE DISBURSEMENT DATA BY EAR. IN SUMMARY,
CUMULATIVE GOI ASSISTANCE THROUGH MARCH 20, 1977 IS \$391.4
MILLION AND THE OUTLOOK IS FOR UNENTHUSIASTIC PARTICIPATION IN
PROJECT FINANCING, MOSTLY JOINT GOI/GOE VENTURES, UNLESS HIGH
LEVEL GOE DIRECT APPROACH REVERSES THE APPARENT GOI NEGATIVE
POSITION TOWARD BALANCE OF PAYMENTS ASSISTANCE. END SUMMARY.

2. EMB RECONFIRMED GOI DISBURSEMENTS TO EGYPT AS REPORTED
IN REF B; BUT DATA ONLY AVAILABLE ON IRANIAN FISCAL YEAR
BASIS, WHICH ENDS MARCH 20, AS FOLLOWS: (A) NOTHING THROUGH YEAR
2533 ENDING MARCH 20, 1975; (B) YEAR 2534-\$331.7 MILLION; (C)
YEAR 2535-\$12.7 MILLION. ADDITIONALLY, \$47 MILLION WAS PROVIDED
IN 1975 IN SUPPORT OF SALE OF PETROLEUM PRODUCTS, ASSISTANCE CON-
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SIDERED SEPARATELY FROM THE MINISTRY OF ECONOMIC AFFAIRS AND
FINANCE (MEAF) ASSISTANCE ACTIVITY, ACCORDING TO THE LOCAL EGYPT-
IAN EMB. THIS COULD HAVE BEEN HANDLED AS A DEFERRED PAYMENT
DIRECTLY BY THE NIOC. THUS, TOTAL TO MARCH 20, 1977 WOULD BE
\$391.4 MILLION.

3. THE FOLLOWING BEST ACCOUNTING OF THIS FOREIGN ASSISTANCE

COMES WITHIN ABOUT \$1 MILLION OF THE \$342.7 MILLION (EX-POL) ASSISTANCE AND IS DESCRIBED AS FOLLOWS: (A) \$200 MILLION, PREVIOUSLY REPORTED, DISBURSED IN 1975 FOR BALANCE OF PAYMENTS ASSISTANCE. TERMS AT 4 PERCENT INTEREST WITH REPAYMENT IN EIGHT INSTALLMENTS BEGINNING JANUARY 1, 1981. (B) \$120 MILLION IN APRIL 1975 JUSTIFIED AS RELIEF TO EGYPT DUE TO THE DEPRESSED COTTON MARKET. THE FIRST REPAYMENT WAS DUE IN 1976 BUT WAS DELINQUENT

T. A RESCHEDULING AGREEMENT PENDING SIGNING INVOLVES TWO \$10 MILLION PAYMENTS IN 1977 WITH THE \$100 MILLION BALANCE MARRED WITH THE INSTALLMENT REPAYMENTS OF THE \$200 MILLION ("A" ABOVE) BEGINNING IN 1981. (C) \$12.7 MILLION IN 2535 MET IRAN'S EQUITY PORTION IN THE TEXTILE JOINT VENTURE MIRATEX; SHOULD THUS BE CONSIDERED GOI INVESTMENT RATHER THAN ASSISTANCE CREDIT. SPINDLES FOR THIS 100,000 SPINDLE PLANT ARE TO BE PURCHASED FROM IRAN ACCORDING TO EGYPTIAN EMB SOURCE. (D) \$10 MILLION AS GOI 50 PERCENT PORTION OF NOMINAL CAPITAL OF JOINT VENTURE MIRS-IRAN DEVELOPMENT BANK, DISCUSSED IN REF A, ALSO INVESTMENT. (E) LESS THAN \$500,000 AS GOI PORTION OF \$1 MILLION NOMINAL EQUITY IN JOINT VENTURE SHIPPING COMPANY.

4. APART FROM THE \$200 MILLION AND \$120 MILLION IN GENERAL CREDITS, IT APPEARS THAT THE BALANCE OF THE NOTIONAL \$1 BILLION GOI COMMITMENT TO EGYPT IS, AS RECOGNIZED IN REF E, PROJECT ASSISTANCE WHICH IF IT EVENTUATES WILL NOT RESPOND TO EGYPT'S IMMEDIATE NEEDS. THE STATUS OF SEVERAL MAJOR PROJECTS WAS PROVIDED EMBOFF BY EGYPTIAN COMMERCIAL COUNSELOR SALAH NADIM IN CONFIDENCE (NADIM PARTICIPATED IN ALL TECHNICAL LEVEL TALKS BY PM CONFIDENTIAL

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SALEM'S DEL), AS FOLLOWS: (A) MISR-IRAN DEVELOPMENT BANK: 50/50 JOINT VENTURE WITH \$20 MILLION INITIAL CAPITAL. BOTH NADIM AND MEAF'S DIRGEN OF FOREIGN CREDITS REZA KHALEGHI-ROD DESCRIBED THIS BANK AS THE VEHICLE FOR MOST IF NOT ALL IRAN/EGYPT JOINT VENTURES. AS REPORTED IN REF A, MEAF IS OWNER OF GOI PORTION. (B) MIRATEX TEXTILE MILL, WITH INITIAL CAPITAL OF \$25.4 MILLION (ASSUMED ON BASIS OF GOI'S 50 PERCENT \$12.7 MILLION) IS UNDERSTOOD TO BE IN THE MARKET FOR A LOAN. MEAF REPORTEDLY OFFERED 8 PERCENT FINANCING AND GOE COUNTERED WITH 6 PERCENT. (C) EGYPTIAN PURCHASE OF IRAN NATIONAL BUSES: SINCE 1964 EGYPT HAS PURCHASED 1,000 BUSES FROM IRAN. NADIM WAS NOT FAMILIAR WITH THE TERMS BUT SAID NO FINANCING BY MEAF WAS INVOLVED. THE PURCHASE WAS TO INCLUDE SPARES WHICH IRAN NATIONAL

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ITSELF OBTAINS CHIEFLY FROM WEST GERMANY. A FAILURE IN THIS SPARES PROVISION HAS LED TO A BREAKING OUT OF \$8 MILLION OF THE TOTAL BUSES PACKAGE PRICE TO BE FINANCED BY MEAF.

COMMENT: WE SUSPECT THERE IS MUCH MORE TO THIS, AS SUGGESTED BY KHALEGHI-ROD'S SAYING THE EGYPTIANS DO NOT LIKE THE BUSES.

(D) SALEM'S VISIT FOCUSED ON THE STATUS OF THE SUEZ PETRO-CHEMICAL (FERTILIZER) PROJECT DISCUSSED IN REF A, CLEARLY THE MOST SIGNIFICANT SINGLE POTENTIAL COLLABORATION. NADIM SAID GOE IS EXHAUSTED BY ONE AND ONE-HALF YEARS CONSUMED BY FEASIBILITY STUDIES. IMPLICIT WAS BELIEF THAT GOI DELIBERATELY DRAGGING ITS FEET, AN ADMISSION MADE BY MEAF (REF A). THE COST ESTIMATE HAS RISEN FROM \$250 TO \$450 MILLION. THE GOE PROPOSED THE IDEA OF A PILOT PROJECT IN ORDER TO GET THE SCHEME OFF THE GROUND AND IN COURSE OF SALEM VISIT GOI TURNED THE IDEA DOWN, BUT SAID IT WAS WILLING TO PAY HALF OF THE STATED \$1 MILLION FEASIBILITY COST. LEFT UNSETTLED WAS DEGREE OF GOT COMMITMENT TO PROJECT AND WHEN IT MIGHT GET MOVING. EMBOFF WOULD NOT COMMENT WHEN NADIM PRESSED QUESTION OF WHAT IS GOI INTENTION ON EGYPTIAN PROJECTS. (E) SHIP-PING JOINT VENTURE: THIS 50/50 JOINT VENTURE IS DIFFERENT IN THE SENSE IT IS ESTABLISHED UNDER IRANIAN LAW WITH HEADQUARTERS IN TEHRAN WITH THE IRANIAN GOVERNMENT-OWNED ARYR SHIPPING CO., THE GOI PARTNER. THE GENERAL MANAGER IS EGYPTIAN. THE NOMINAL CAPITAL OF \$1 MILLION HAS NOT BEEN FULLY SUBSCRIBED. PREVIOUS INTENTIONS OF A \$10 MILLION GOI LOAN TO SUPPORT A LEASING PROGRAM
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AND \$100 MILLION LOAN FOR SHIPS PURCHASE REPORTEDLY HAVE BEEN DROPPED BY GOI ON BASIS OF EXCESS WORLD SHIPPING CAPACITY. KHALEGHI-ROD TOLD EMBOFF THAT GOE DELEGATION PRESSED FOR LOAN TO PURCHASE SHIPS BUT GOI COUNTERED WITH THE LEASING APPROACH. NADIM SAID THAT THE OUTCOME OF MARCH DISCUSSION

WAS THAT GOI AGREED TO FULFILL THE REST OF THE CAPITAL REQUIREMENT AND EVEN INCREASE THE TOTAL TO \$3 MILLION, I.E., \$1.5 MILLION EACH.

5. NADIM SAID THAT THE SALEM DELEGATION AT NO TIME RAISED THE ISSUE OF GOI BALANCE OF PAYMENTS ASSISTANCE EXCEPT POSSIBLY IMPLICITLY IN THE CONTEXT OF A REVIEW OF EGYPT'S FINANCIAL PLIGHT AND ITS HOPES FROM THE IMMINENT CONSULTATIVE MEETING. THE GOI, HOWEVER, WAS VERY MUCH ON GUARD FOR A DIRECT REQUEST AND REPORTEDLY MISINTERPRETED A REQUEST FOR THE IDENTIFICATION OF THE MINISTRY AND OFFICIAL TO REPRESENT IRAN AT THE CONSULTATIVE MEETING AS A REQUEST FOR ASSISTANCE. (THE GOI SAID IT WOULD INFORM THE GOE CONCERNING SUCH REPRESENTATION). PM SALEM REPORTEDLY SAID HIS VISIT WAS NOT THE PLACE OR TIME TO ADVANCE AN ASSISTANCE REQUEST.

6. NADIM ASKED EMBOFF FOR ASSESSMENT OF GOI ABILITY TO ASSIST EGYPT AND FOR SUGGESTIONS ON GOE TACTICS. WHILE REMAINING GENERAL, REPLY INCLUDED PROVISION OF GUARANTEE OF COMMERCIAL CREDITS, EVEN THOUGH NOT CONCESSIONAL FINANCING. NADIM WAS TOTALLY UNAWARE OF MECHANISM (AND THUS THE CURRENT CHASE LED/SAUDI GUARANTEED SYNDICATION) AND SAID IT HAS NEVER BEEN RAISED BY GOE EXCEPT IN CONTEXT OF A POSSIBLE GOI LOAN TO THE SHIPPING JOINT VENTURE. IN THAT DISCUSSION MEAF REPLIED THAT IRANIAN LAW PRECLUDED SUCH GUARANTEES. COMMENT: AS REPORTED, GOI IS CURRENTLY REVIEWING THE LOAN DOCUMENT IN CONNECTION WITH ITS COMMITMENT TO GUARANTEE A \$300 MILLION COMMERCIAL SYNDICATION ON BEHALF OF THE GOVERNMENT OF PAKISTAN FOR B/P SUPPORT; A SPECIAL PARLIAMENTARY ACT WILL BE NEEDED.

7. IT APPEARS THAT THE LACK OF REFERENCE TO FINANCIAL ASSISTANCE
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IN SALEM VISIT COMMUNIQUE REFLECTED REALITY OF DISCUSSIONS. IF THE VISIT INCLUDED AS AN OBJECTIVE OBTAINING NEW GOI ASSISTANCE COMMITMENT THE REPORTED GOE TACTIC WAS TOO SUBTLE AND THE VISIT A DISMAL FAILURE. FOR REASONS PERHAPS KNOWN TO EMBASSY CAIRO, GOE HAS NOT TO OUR KNOWLEDGE MADE A DIRECT APPEAL TO GOI HERE FOR NON-PROJECT ASSISTANCE, MUCH LESS A GUARANTEE OF COMMERCIAL CREDIT. REASON MAY BE A CORRECT PERCEPTION OF GOI ATTITUDE TO GENERAL ASSISTANCE TO EGYPT, I.E., IT HAS A BOTTOMLESS CAPACITY AND GOI'S DIMINISHING FINANCIAL CAPACITY SHOULD BE ALLOCATED TO MORE POLITICALLY REWARDING RECIPIENTS. IN ANY EVENT, PRESENT OUTLOOK OF GOI ASSISTANCE IS ENTIRELY PROJECT/ COMMERCIAL RELATED AND, AT THAT, WITH FOOTDRAGGING.
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